Name:	Date:	Class:

S BUILDING BLOCKS STUDENT WORKSHEET

Investigating payroll taxes and federal income tax withholding

When you get your first paycheck, your take-home pay might not be what you expected. That's because of the taxes that are withheld from your paycheck. Understanding payroll taxes and federal income tax withholding can help you manage your money.

Instructions

- 1. Read the "Understanding paycheck deductions" handout and answer the reading questions below.
- 2. Review the scenarios and answer the questions.

Reading questions

1.		sed on the example in the handout, how much income tax do employers hhold from employee pay?
		6.20 percent of gross income
		1.45 percent of gross income
		7.65 percent of gross income
		Employers use the information on Form W-4 to compute income tax with holding.
2.	Pay	yroll tax consists of which taxes? (Check all that apply.)
		Income tax
		Social Security tax
		Sales tax
		Medicare tax

3.	The	e amount of federal income tax you pay is based on:
		How much money you make
		An amount set by the government (it's the same for everyone)
		What your house is worth
		How old you are
4.	Bas	sed on the example in the handout, what's the total tax rate for the payroll taxes?
		6.20 percent \square 10 percent \square 7.65 percent \square 1.45 percent

Scenario 1. Reading a W-4

Review the completed Form W-4.

Form W-4		e's Withholding	_		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		led to claim a certain numb ne IRS. Your employer may l			
1 Your first name a Sadie	nd middle initial	Last name Omozusi		2 Yours	social security number
123 Main					vithhold at higher Single rate. withhold at higher Single rate."
City or town, state, and ZIP code Anytown, Any State XXXXX			4 If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card. ▶		
6 Additional am7 I claim exempLast year I hThis year I e	of allowances you're clain ount, if any, you want with tion from withholding for 2 ad a right to a refund of a xpect a refund of all feder oth conditions, write "Exer	nheld from each payched 2019, and I certify that I i II federal income tax with al income tax withheld b	ck	wing conditions for exo no tax liability, and ave no tax liability.	. 6 \$
Under penalties of perj Employee's signature (This form is not valid use Employer's name an	ury, I declare that I have exa	amined this certificate and Sadie Omoge e boxes 8 and 10 if sending t	d, to the best of my kno	wledge and belief, it is t Date ▶	true, correct, and complete. 10 Employer identification number (EIN)
For Privacy Act and P	aperwork Reduction Act I	Notice, see page 4.	Cat.	No. 10220Q	Form W-4 (20XX
Who complete	ed the Form W-4′	?			_
Is the taxpayer	married or singl	e?			_

Scenario 2. Completing a W-4

Meet Paulo Mercedez. He lives at 1111 Apple Tree Lane, Happy Town, KS. He's not married, and he has no children. No one else depends on him for income or support. Paulo recently graduated from college with an engineering degree. On January 1, he started his new job with a company that builds bridges. He's being paid a salary of \$55,000 a year, and he'll receive paychecks twice a month. This is his only job.

8. Complete the fields on the blank Form W-4 for Paulo based on the information in the scenario.

orm WW ———		/ee's Withholdinş				⊘ ⋒ 4 0
ernal Revenue Service	subject to review b	y the IRS. Your employer may I	be required to send a cop	y of this form t	o the IRS.	
1 Your first name and i	middle initial	Last name			2 Your so	ocial security number
Home address (numb	per and street or rural ro	ute)	3 Single Mar	ried Ma	ried, but with	hhold at higher Single rate.
			Note: If married filing sepa	arately, check "M	arried, but wit	thhold at higher Single rate."
City or town, state, a	nd ZIP code		4 If your last name dif	fers from that	shown on yo	our social security card,
			check here. You mi	ust call 800-77	2-1213 for a	replacement card. 🕨
7 I claim exemption	· ·	or 2019, and I certify that I i of all federal income tax witl		•		mption.
This year I expe If you meet both	ect a refund of all fe conditions, write "E	deral income tax withheld be xempt" here	pecause I expect to ha	ve no tax liab	oility.	
This year I expended in the second seco	ect a refund of all fe conditions, write "E	deral income tax withheld b	pecause I expect to ha	ve no tax liab	oility.	ue, correct, and complete.
This year I expell f you meet both nder penalties of perjury mployee's signature	ect a refund of all fe conditions, write "E , I declare that I have	deral income tax withheld be xempt" here	pecause I expect to ha	ve no tax liab	oility. 7 elief, it is tru	ue, correct, and complete.
This year I expell f you meet both nder penalties of perjury nployee's signature his form is not valid unless.	ect a refund of all fe conditions, write "E , I declare that I have ess you sign it.) > ddress (Employer: Com	deral income tax withheld be xempt" here	pecause I expect to ha	ve no tax liab	Date ►	ue, correct, and complete. D Employer identification number (EIN)

- 9. If Paulo claimed 0 as his withholding allowance, how would that affect his federal tax withholding and his take-home pay?
- 10. Why might a single person with no children choose 0 instead of 1 as the withholding allowance?

Scenario 3. Reading a pay stub

Review a sample pay stub.

Pay stub

SMITH AND COMPANY., INC.

123 West Street Smalltown, Any State XXXXX

EARNINGS

NET INCOME

EMPLOYEE	SOCIAL SECURITY NO.	PAY RATE	PAY PERIOD
Johnson, Bob	XXX-XX-6789	18.00 regular	1/7/XX to 1/13/XX
		27.00 overtime	

AMOUNT

560.71

Regular	40.00	720.00			
Overtime	2.00	54.00			
GROSS INCOME	774.00				
TOTAL DEDUCT	213.29				

HOURS

DEDUCTIONS	AMOUNT
Federal income tax	60.45
FICA Social Security	47.99
FICA Medicare	11.22
State income tax	16.23
Retirement	77.40

- 11. What's the total amount of payroll taxes (Social Security and Medicare) being withheld?
- 12. What's the total amount of federal tax being withheld?